

SCOMM

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File
#169



Official Business

Alaska State Legislature

Senate
Committee on
Community & Regional Affairs

Pouch V
State Capitol
Juneau, Alaska 99811

February 7, 1978

Rep. Clark Gruening
Chairman
House Interim Committee
On The Permanent Fund
Pouch V
Juneau, Alaska 99811

Dear Rep. Gruening:

I have enclosed a copy of Senate Bill no. 375 ("An act relating to the investment of permanent fund money in community capital facilities") for your information and comment.

SB no. 375 has been referred to the Senate Community and Regional Affairs Committee for action, and I would appreciate your committee's assessment of the concept of using permanent fund monies to finance community capital facilities. I would also be interested in your views regarding the effect that the enactment of such legislation would have on the projected operations of the permanent fund, and whether this possibility was considered as a desirable use for fund monies during the extensive hearings which your committee held on the organization of the fund.

Sincerely,

Joe Orsini

Joe Orsini
Chairman
Community and Regional
Affairs Committee

JO/tb

Enclosure: SB 375

INTRODUCED: 1/10/78
REFERRED: Community & Regional
Affairs and Finance

1 IN THE SENATE

BY RAY, HUBER and MELAND

2 SENATE BILL NO. 375

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the investment of permanent fund
7 money in community capital facilities; and providing
8 for an effective date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. AS 37.10.065 is amended by adding a new subsection to read:

11 (d) In addition to the investments listed in (a) of this section,
12 permanent fund principal may be used to make loans to municipalities for
13 the purpose of construction and renovation of capital facilities.

14 Permanent fund income may be used to make loans or grants to municipali-
15 ties for the purpose of construction and renovation of capital facili-
16 ties. In this section "municipality" means a unified municipality or a
17 home rule borough or city or a general law borough or city of any class
18 incorporated under the laws of the state.

19 * Sec. 2. This Act takes effect immediately in accordance with AS 01.10.-
20 070(c).

Alaska State Legislature

SPECIAL COMMITTEE ON THE ALASKA PERMANENT FUND

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MEMBERS

REP. CLARK GRUENING, CHMN.
REP. TERRY GARDINER, V. CHMN.
REP. E. J. HAUGEN
REP. RUSS MEEKINS
REP. BILL MILES
REP. LEO SCHAEFFER
~~REP. JOE HAYES~~
Rep. Joe Hayes

House of Representatives

February 22, 1978

Senator Joe Orsini, Chairman
Community and Regional
Affairs Committee
Pouch V
Juneau, Alaska 99811

Dear Joe:

Thank you for inviting the Committee's comments on SB 375. While I cannot speak for any other member of the Committee, I can give you what is and has been the consensus of the Committee in developing its approach to enabling legislation for the permanent fund. The approach of the Committee is contained in HB 595, HB 596 and HB 682 (dealing with the Renewable Resources Development Fund).

The concept of using the permanent fund to assist in meeting the financing needs of municipalities is included in HB 595 and HB 596. The approach contained in these bills, however, differs from that taken in SB 375. As you know, SB 375 is what appears to be a minor amendment to the permanent fund interim management bill (HB 210) we passed last session. This amendment would authorize the commissioner of revenue, at his absolute discretion, to use all or any part of the principal of the permanent fund to make loans (at any rate of interest the commissioner deems proper) to municipalities. SB 375 apparently also authorizes the commissioner of revenue to make loans or grants of the income or earnings of the permanent fund to municipalities. The last sentence of the permanent fund amendment provides "all income from the permanent fund shall be deposited in the general fund unless otherwise provided by law". There is some question in my mind, at least, as to whether SB 375 is a specific enough designation by law to meet the constitutional requirement. Moreover, as a matter of policy, a legislator may question the wisdom of allowing the commissioner of revenue the apparent authority to dole out what may be over 100 million dollars in earnings each year.

February 22, 1978

The approach of the House has been to put some limit on the amount of total permanent fund principal the managing authority could place in direct loans to municipalities. In HB 596, the entity most likely to make direct loans or guarantees to municipalities is the Alaska Enterprise Investment Corporation, which is authorized to use half of its available assets to meet community development needs on a loan or guarantee basis. In addition HB 595 uses the earnings from the permanent fund investments to leverage private financing for power projects. The earnings from the permanent fund would be the basis of guarantees to pay any default on interest or principal payments on bonds. Once the municipality or agency issuing the bonds makes these payments, the portion of the permanent fund earnings used as the guarantee would be freed and could flow to the permanent fund or the general fund for other uses.

In summary, while I believe the Committee is in favor of the concept of financial assistance to municipalities, the conclusion, based on public testimony and the advice of consultants, has been to give the permanent fund management an existence separate from the commissioner of revenue and to apply a logical and complete set of criteria for investments rather than simply establishing the commissioner of revenue as the sole arbiter over a smorgasbord of possible investment areas.

If you have any further questions after reading the attached House Bills 595 and 596 please don't hesitate to contact me.

Cordially,

Representative Clark Gruening

CG/jl

Enclosures